

**TO:** Thomas J. Bonfield, City Manager

**THROUGH:** Wanda Page, Deputy City Manager  
Alethea C. Bell, Human Resources Director

**FROM:** Virginia H. Jones, Human Resources Manager

**SUBJECT:** Year 2011-12 Benefits Recommendations

**DATE:** 4/19/2011

**I. Executive Summary:**

This 2011-12 Benefits Recommendation is the third in the three year agreement with the vendors selected in the 2008 Request for Proposal (RFP) for all of our benefits programs. The major goal of the City of Durham benefits programs remains to provide the highest valued benefits plans at the most reasonable cost to employees and the City.

Rising health care costs and increased usage by employees, retirees and their covered dependents continues to challenge the ability to accomplish this goal. Increased claims experience has caused the City to make several health plan changes to minimize the health care premium increases. These have included plan design enhancements such as the waiver of copays for preventive care and encouraging the use of generic medication with \$0 copay. Research has continued to show that these efforts can reduce overall costs and provide a considerable return on investment.

**II. Recommendation**

Staff recommends that Council vote to continue the administrative agreement with Blue Cross / Blue Shield of North Carolina (BCBSNC) for the 2011-12 plan year. Based on the partially self-funded projection an increase in funding of 5.0% is needed for the September 1, 2011 effective date. BCBSNC continues to offer programs in disease management and wellness initiatives that will help control high claims and reduce future medical risk.

Staff also recommends that the contract with Duke University Occupational Mental Health Programs as the administrator of our Employee Assistance Program (EAP) be continued. Unum Life Insurance is recommended to provide the City's basic term life insurance and Colonial is recommended as the provider of employee paid insurance products.

The Laymon Group is recommended as the administrator of the Flex Spending Accounts and the Health Reimbursement Arrangement (HRA). Staff also recommends Community Eye

Care for the employee paid Routine Vision plan. Colonial, through its administrative arrangement with Pre-paid Legal will continue to administer the Pre-paid Legal plan.

Staff recommends that Liberty Mutual continue to provide the voluntary employee paid auto, home owners and other liability insurance. Finally, Staff recommends that the agreement with Del Mattioli and Associates to offer a Long Term Care Plan on a voluntary basis to employees of the City of Durham be continued.

**This recommendation supports Council strategic goal #4 *Well-Managed City*: Provide professional management that is accountable, efficient, and transparent.**

### **III. Background**

In May 2010 Council voted to approve Staff's recommendation that the City self-fund its group medical plan, the plan designs and authorized the City Manager to enter into an administrative contract with BCBSNC and renew contracts with all other current vendors.

As with all benefit changes, the Human Resources Department involved employees and retirees in the review and development of the benefit plans. This includes presentations to employee and retiree groups, meeting with the Department Liaison group, and review with the Council Insurance Sub-Committee, and the City Manager Executive Team. The changes included in this recommendation will help the City better control expensive procedures and encourage healthy life choices.

Communication is also maintained with other city and county organizations in order to learn about new ideas and ways to improve our plan designs and reduce inappropriate premium increases.

### **IV. Issues/Analysis:**

#### **Health Care**

Several factors continue to influence the increases in health care premiums. The cost of health care continues to rise significantly each year because of new, expensive procedures and medications. In addition, on March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act (H.R. 3590). This is the most sweeping change in U.S. policy in over half a century. Implementation and compliance with this Act will have a significant impact on health care for years to come.

The City has experienced several very large claims during the 2010-11 benefit year. In order to keep the health care plan the same or better than 2010-11 the City will have a 5% rate increase.

Employees have grasped the three level health care plan designs and over the last year have gravitated from the Premium and Basic level plans to the Core Level Plan. With the inclusion of the Health Reimbursement Arrangement for hospital, surgery and other high copay services, employees notice the actual cost of the procedures and claims they are incurring and better recognize and value the contribution the City is making to their coverage. The City continues to encourage employees to seek out preventive care to maintain the highest levels of

health. Education and preventive care remain two of the most important resources available to employees in diagnosing and treating medical problems early.

The 2011-12 health care recommendation maintains the strengths of the 2010-11 plan designs with important but minimal changes and will allow the City to continue to offer decreased rates to plan participants. Staff believes that rates will decrease if the City continues to provide support for those programs that increase employee involvement in the overall development and responsibility for the health care plan. This includes cost sharing and preventive/wellness programs.

### **Wellness and Disease Management**

In the past employees accepted health care plans that provided coverage without much understanding of how overall cost in claims affect the premium costs that are paid by employees and the City. With increasing costs employers have sought to help employees understand the relationship better and involve them in influencing the programs that will provide them with increased choice and responsibility of the cost of the coverage. Increasing employee participation in the overall cost was emphasized as employees have shared in the increased cost in monthly premiums, copays and deductibles.

To encourage employees to take their medications, the plans will continue the \$0 co-pay for generic medications enhancement. The plans will also continue to include 100% coverage for medical supplies (includes diabetic supplies, inhaler spacers and peak flow meters). This is all intended to improve resources for those with higher incidence or risk of medical illnesses to help them better manage the care and cost. Along with this, many organizations like ours have also implemented programs that are focused on resources to help participants best identify future medical risk and provide resources to help them maintain and improve wellness by making healthier choices. These organizations are finding there is a considerable return of investment from \$2-\$5 for each dollar spent for wellness activities.

**See Attachment # 1 BCBSNC 2010 Utilization Report the City of Durham.**

To deal with the root cause of increased claims, the plan maintains the focus on identifying and providing case management to members with chronic illnesses and also providing resources to encourage employees to make healthy life style changes. The health care plan recommendation continues and increases the City's focus on wellness and disease management resources.

BCBSNC will administer specific (individual) stop loss (ssl) at \$225,000 with an aggregating specific stop loss (ssl) of \$250,000. When an aggregate of claims begins to add up for an individual who has reached the \$225,000 ssl and we continue to pay the claim (whether it is on 1 or 5 claimants who reach the \$225,000 ssl) until those aggregate claims reach \$250,000. At that point all individual claims exceeding the \$225,000 level will be reinsured by BCBSNC and would not be the City's risk for the plan year.

The BCBS plan continues to have considerable resources available to employees that will encourage and support wellness efforts. The City, with assistance from BCBSNC continues to support a Wellness Committee. Staff will host a Health/Benefits Fair on June 1, 2011 at the Walltown Recreation Center.

As part of the City's overall Strategic Plan Goal #4 Well Managed City, the Wellness Committee has prepared a draft Employee Wellness Policy that includes performance

measures, which after review and approval, will eventually be made available to all City employees.

The City will also continue relationships with outside organizations to provide our employees with selected wellness initiatives and events. These activities currently include projects with Duke University and Durham County. The wellness program demonstrates the City's commitment to improving employee health and adds value to the benefits package. **See Attachment # 2 BCBSNC Plan Proposals.**

### **Dental Care Plan**

Staff also recommends the continuation of BCBSNC as the administrator of the City self insured dental plan. Employees pay a monthly premium for single, two-party or family dental coverage. Retiring employees are allowed to elect dental coverage for up to eighteen (18) months at full cost without a City contribution.

Currently BCBSNC charges the City an administrative charge of \$ 3.02 per employee per month. This monthly administrative charge will remain the same for the 2011-12 benefits year.

With the use of the plan and the cost of services increasing, Staff recommends that the dental fund be increased by 20%.

### **Employee Assistance Plan (EAP)**

The administrative fees paid to Duke EAP for the administration of the City's Employee Assistance Plan will remain the same for the 2011-2012 plan year. **See Attachment # 3 EAP Utilization Report.**

### **Basic Term Life Insurance**

Under this recommendation the City paid, Basic and Supplemental Term Life Insurance will continue to be provided by Unum. All eligible employees receive City-paid, term life insurance in the amount equal to their annual salary. The rates will remain the same. Employees may select additional, employee-paid, supplemental coverage for themselves and/or dependents. Through UNUM, the City will continue to offer 3 options for additional term life insurance.

The current City paid and voluntary employee paid supplemental rates will remain the same for 2011-12. Retirees and employees leaving employment with the City may elect to convert the group term life insurance to individual private plans paid for by the retiree or former employee. Disability retirees are granted one year of term life insurance paid for by the City.

## **Flex Spending and Other Employee Paid Benefits**

### **a. Flexible Spending Accounts (FSAs)**

The Laymon Group will continue to provide the administration of the Section 125 Flexible Spending Account Plan. Flexible Spending benefits allow employees to pre-tax the cost of health, dental and vision insurance premiums, and to set up special spending reimbursement accounts to pay for specified uncovered medical expenses, dependent care expenses and eligible parking expenses. The plan offers participating employees the option of using a debit card to pay for eligible medical and dependent care expenses.

Effective January 1, 2011, as part of the Patient Protection and Affordable Care Act (H.R. 3590), employees are now required to submit a manual claim and provide supporting documentation, such as a prescription or physician's statement, in order to be reimbursed for over-the-counter (OTC) medications from their tax advantaged flexible medical accounts.

### **b. Healthcare Reimbursement Arrangement (HRA)**

The Laymon Group will continue to administer the City's Health Reimbursement Arrangement (HRA) for the health care plan deductibles related to hospital visits, out-patient surgery, medical testing and durable medical equipment expenses. Employees and retirees will be reimbursed \$250 when they submit the evidence of benefits for the deductibles. Based on the plan level employees and retirees will be reimbursed as follows:

\$250 of the \$500 for the Premium Level Plan,  
\$250 of the \$750 for the Core Level Plan, and  
\$250 of the \$1,500 for the Basic Level Plan

Employees and retirees will be asked to voluntarily complete the BCBSNC Health Assessment to receive the reimbursement benefit. Employees and retirees will receive notice that voluntary completion of the BCBSNC health assessment must be done between 09/01/11 and 12/31/11 in order to qualify for the health reimbursement arrangement. New Employees will be given 45 days from the date of hire to complete the health assessment. The completion of the health assessment will continue to be an annual requirement. This excellent benefit further encourages employees to become involved in wellness activities that will have an effect on improving health and reducing claims.

### **c. Vision**

Community Eye Care (CEC) will continue to offer single, two-party or family vision coverage with no increase in rates for the 2011-12 benefits period.

### **d. Colonial Voluntary Benefits**

Colonial will continue to offer voluntary, employee-paid insurance products, including cancer, intensive care, long and short-term disability, group universal life, and a prepaid legal plan.

### **e. Auto and Home Owners Insurance**

Liberty Mutual Insurance Company will continue to provide employees with auto, homeowners, renters and umbrella insurance. This benefit is voluntary and employee paid.

The current employee participation in all the City benefits is provided in **Attachment # 4 Current Benefit Participation.**

## **Communication**

Throughout the year, the HR Department has communicated with employees on the comprehensive benefits plans offered by the City. This communication has taken the form of all-user e-mails to employees on how to get the most out of City benefits. The HR Department along with Technology Solutions ERP staff has also improved the information available to employees by way of Munis Employee Self Service.

The Departmental Liaison Group continues to meet regularly to discuss, among other things, benefit plans concerns and initiatives. They are then asked to take information back to their respective departments to provide information to the employees. The benefits information provided to employees throughout the year by the Departmental Liaison Representatives is intensified during the City's Open Enrollment (OE) period to ensure employees are completely informed about the benefits and choices available during OE.

An Employee Benefits Summary Guide that will contain information about benefits, HR contacts, frequently asked questions and discounts will again be offered to employees and their families. Additionally, HR will make benefit presentations to increase understanding of the future benefit offerings and open enrollment process.

To heighten the awareness and appreciation of the benefits plans, the HR Department provides a 4-hour presentation during the week-long New Employee Training (NET) process. This once-a-month training session for new employees allows HR staff and vendors the requisite time to give thorough explanations of the City's core benefits and voluntary benefits. Further it allows time to assist to assist new employees in selecting the most appropriate benefits. These extended training opportunities are designed to give new employees an appreciation for the tremendous investment that the City has made to provide excellent benefits for its employees.

**Continued Improvements to the Open Enrollment Process** As was the case last year the 2011-12 open enrollment process will be a dual process.

### **a. Web-based on line open enrollment**

The City's insurance broker, IBA, will continue to fund the cost of the web-based on-line open enrollment process that will be utilized for enrollment in health, dental, life, long term disability, vision and flexible spending accounts. Employees with access to computers whether at work or at home will be able to enroll in the above-mentioned benefits on their own during the open enrollment period.

Staff will also be available to assist with web-based open enrollment within departments throughout the open enrollment period. In addition, employees without assigned computers will be able to use computer kiosks at some sites. All employees and retirees (medical only) will again be notified and provided with directions on how to use the web-based open enrollment system. Training will also be made available. For those employees who do not want to make benefits changes, no use of the web based system will be needed unless flexible spending account initiation is desired. Staff will also strongly encourage employees and

retirees to attend Employee Benefit Presentations to familiarize themselves with the changes in the plans to prepare for the Open Enrollment process. This process ensures minimal inconvenience to employees and reduces the disruption of work within the departments.

#### **b. Colonial Enrollment**

Employees who want to purchase Colonial products will still have opportunities to meet with Colonial enrollers should they chose to do so. For those employees with current Colonial coverage who do not want to make a change, no meeting with a Colonial representative will be needed. This process further ensures minimal inconvenience to employees and reduces the disruption of work within the departments.

### **V. Alternative**

An alternative to Staff's health care recommendation is to adjust the City/Employee contribution levels to further provide financial incentives for employees to select the less expensive Core level plan. Another alternative to the health care recommendation would be to offer the Basic Level plan at no increase in premiums over the 2010-11 plan. While this option would further encourage employees to select the Basic Level Plan option, it would also increase the City contribution over the recommended plan. Staff does not recommend this option.

### **VI. Financial Impacts**

#### **Health Care**

The financial impact of this recommendation is related to the monthly premium that employees and retirees will be required to pay due in part to the City's self-funding strategy. Last year the increase in funding was 14.54% and the Employee/Employer contribution percentages were changed. This will be the second year that monthly premiums will not change for the vast majority of plan participants. **See Attachment #5 Health Care Rate History.**

Based on the self funding strategy, the City has set the employee premiums to encourage employees and retirees to make their selection of health care plan based on their need. The premium cost and City/Employee costs are listed below for each of the health care coverage plan levels.

#### **Self-Funded Monthly Rates:**

<u>BCBS Health Care Plan</u>	<u>Total Prem</u>	<u>City Cost</u>	<u>City %</u>	<u>Employee Cost</u>
<u><b>Premium Plan</b></u>				
Single	\$640.50	\$572.25	89%	\$68.25
Two Party	\$1,140.30	\$772.64	68%	\$367.66
Family	\$1,701.00	\$1,079.87	63%	\$621.13

**Core Plan**

Single	\$572.25	\$572.25	100%	\$00.00
Two Party	\$936.60	\$772.64	82%	\$163.96
Family	\$1,495.20	\$1,079.87	72%	\$415.33

**Basic Plan**

Single	\$522.90	\$522.90	100%	\$00.00
Two Party	\$898.80	\$772.64	86%	\$126.16
Family	\$1,368.15	\$1,079.87	79%	\$288.28

The health care insurance premium rate charged to employees includes the coverage for BCBNC and the administrative fee for Duke EAP.

The City of Durham health care premiums are “experience based” and driven by the actual claims that are paid by the vendor for our employees, retirees and their dependents. The premium rates charged by other city and county organizations do not affect the rate the City is charged by vendors. For comparison purposes the monthly premium rates for other similar jurisdictions are provided. **See Attachment # 6 City/County Rate Comparisons.**

**Dental Care Plan**

The administrative fee paid to BCBSNC for the self-funded plan will be \$3.02 per employee each month for 2011-12. Premiums paid by employees for dependent care are listed below.

**Self-Funded Monthly Rates:**

<b><u>Dental Care Plan</u></b>	<b><u>Total Prem</u></b>	<b><u>City Cost</u></b>	<b><u>City %</u></b>	<b><u>Employee Cost</u></b>
Single	\$40.00	\$27.00	67%	\$13.00
Two Party	\$69.00	\$40.00	58%	\$29.00
Family	\$117.00	\$40.00	34%	\$77.00

**VII. Equal Opportunity/Equity Assurance (EO/EA) Summary**

**It is a mission of the City to increase minority participation in the vendorship of the City’s benefits programs.** Human Resources and EO/EA Department staff work closely with current vendors to help increase minority participation and the appreciation of diversity. EO/EA has reviewed the information for all of the vendors represented in this recommendation.

The EO/EA department collects quarterly EEO statistics from vendors. The Insurance Renewal Report from EO/EA has been submitted by staff. **See Attachment #7 Compliance Report.**